

UNOFFICIAL TRANSLATION
BANK INDONESIA REGULATION
NUMBER: 11 / 2 / PBI / 2009
CONCERNING
THE THIRD AMENDMENT OF
BANK INDONESIA REGULATION NUMBER 7 / 2 / PBI / 2005
CONCERNING ASSET QUALITY RATING FOR COMMERCIAL BANKS

WITH THE GRACE OF GOD THE ALMIGHTY

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas in facing the impact of global financial crisis and in order to support the development of the real sector, it is necessary for the banking sector to play a greater role in providing financing for the business world;
 - b. whereas in order to enhance the financing capacity during times of crisis, Bank needs to improve its efficiency by still maintaining proper risk management;
 - c. whereas efforts to improve efficiency among others are carried out by reviewing the regulation on classification of asset quality, the procedure for calculating collateral as deduction from provision for asset losses and designation of abandoned property;
 - d. whereas based on the consideration as referred to in letter a, letter b, and letter c, it is necessary to amend Bank Indonesia Regulation concerning Asset Quality Rating for Commercial Banks;

- In view of:
- 1. Law No. 7 of 1992 concerning Banking (Official Gazette of the Republic of Indonesia No. 31 of 1992, Supplement to Official Gazette of the Republic of Indonesia No. 3472) as amended by Law No. 10 of 1998 (Official Gazette of the Republic of Indonesia No. 182 of 1998, Supplement to Official Gazette of the Republic of Indonesia No. 3790);
 - 2. Law No. 23 of 1999 concerning Bank Indonesia (Official Gazette of the Republic of Indonesia No. 66 of 1999, Supplement to the Official Gazette of the Republic of Indonesia No. 3843) as lastly amended by Government Regulation in lieu of the Law No. 2 of 2008 (Official Gazette of the Republic of Indonesia No. 142 of 2009, Supplement to the Official Gazette of the Republic of Indonesia No. 4901)

as...

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as stipulated by Law No. 6 of 2009 concerning the Enactment of Government Regulation in lieu of the Law No. 2 of 2008 concerning Second Amendment to Law No. 23 of 1999 concerning Bank Indonesia in becoming Law (Official Gazette of the Republic of Indonesia No.7 of 2009, Supplement to the Official Gazette of the Republic of Indonesia No. 4962);

3. Bank Indonesia Regulation No. 7/2/PBI/2005 concerning Asset Quality Rating for Commercial Banks (Official Gazette of the Republic of Indonesia No. 12 of 2005, Supplement to the Official Gazette of the Republic of Indonesia No. 4471) as lastly amended by Bank Indonesia Regulation No. 9/6/PBI/2007 (Official Gazette of the Republic of Indonesia No. 52 of 2007, Supplement to the Official Gazette of the Republic of Indonesia No. 4716);

HAS DECREED:

To enact: BANK INDONESIA REGULATION CONCERNING THE THIRD
AMENDMENT OF BANK INDONESIA REGULATION NO. 7/2/PBI/2005
CONCERNING ASSET QUALITY RATING FOR COMMERCIAL BANKS.

Article I

A number of provisions of Bank Indonesia Regulation No. 7/2/PBI/2005 concerning Asset Quality Rating for Commercial Banks (Official Gazette of the Republic of Indonesia No. 12 of 2005, Supplement to the Official Gazette of the Republic of Indonesia No. 4471) as lastly amended by Bank Indonesia Regulation No. 9/6/PBI/2007 (Official Gazette of the Republic of Indonesia No. 52 of 2007, Supplement to the Official Gazette of the Republic of Indonesia No. 4716) are amended as follows:

1. Provision for Article 35 is amended to read as follows:

Article 35

- (1) Classification of quality can only be based on promptness of payment for principal and/or interest, for:
 - a. Loan and other provisions of fund extended by each Bank to 1 (one) debtor or 1

(one)...

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- (one) project with any amount equal to or less than Rp. 1,000,000,000.00 (one billion rupiah);
- b. Loan and other provisions of fund extended by each Bank to Micro, Small and Medium Enterprise debtor with any amount of:
- 1) more than Rp. 1,000,000,000.00 (one billion rupiah) up to Rp. 20,000,000,000.00 (twenty billion rupiah) for Bank meeting the following criteria:
 - a) the adequacy of risk control system for credit risk is rated as strong;
 - b) Capital Adequacy Ratio of at least as prescribed in the applicable provisions; and
 - c) Composite rating of Bank Rating of minimum at level 3 (PK-3).
 - 2) more than Rp. 1,000,000,000.00 (one billion rupiah) up to Rp. 10,000,000,000.00 (ten billion rupiah) for Bank meeting the following criteria:
 - a) the adequacy of risk control system for credit risk is rated as acceptable;
 - b) Capital Adequacy Ratio of at least as prescribed in the applicable provisions; and
 - c) Composite rating of Bank Rating of minimum at level 3 (PK-3)
- c. Loan and other provisions of funds for debtors with businesses located in specified regions with any amount equal to or less than Rp. 1,000,000,000.00 (one billion rupiah).
- (2) The rating of risk control system for credit risk, CAR, and composite rating of Bank Rating applied in assessing the quality of loan and other provisions of fund as referred to in paragraph (1) letter b shall be based on the assessment made by Bank Indonesia as informed to Banks in each semester.
- (3) The application of the rating of risk control system for credit risk, CAR, and composite rating of Bank Rating in assessing the quality of loan and other provisions of fund as referred to in paragraph (1) letter b shall be carried out as follows:
- a. Assessment of quality of loan and other provisions of fund from January to June shall use the rating of risk control system for credit risk, CAR, and composite rating of Bank Rating from the September position at the latest; and
 - b. Assessment of quality of loan and other provisions of fund from July to December shall use the rating of risk control system for credit risk, CAR, and composite rating of Bank Rating from the March position at the latest.

(4) Provision...

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- (4) Provision under paragraph (1) letter b shall not be applicable for loans and other provisions of fund extended to 1(one) debtor of Micro, Small, and Medium Enterprise with any amount of more than Rp. 1,000,000,000.00 (one billion rupiah) which constitutes:
- a. restructured loan; and/or
 - b. provisions of fund to Bank's 50 (fifty) largest debtors.
- (5) The quality of the restructured loan as referred to in paragraph (4) letter a shall be classified pursuant to the provisions in Article 57, Article 58, and Article 59.
- (6) In the event of significant deviations from sound lending principles, Bank Indonesia may classify the quality of earning assets extended by Bank to debtor of Micro, Small, and Medium Enterprise as referred to in paragraph (1) letter b on the basis of the rating factors as stipulated in Article 10.

2. Provision for Article 40 is amended to read as follows:

Article 40

- (1) Bank is required to identify and designate any holdings of abandoned property.
- (2) The designation of Abandoned Property as referred to in paragraph (1) must be approved by Board of Directors and duly documented.
- (3) Part of the property unused by Bank from a property used in majority for the Bank's business activities shall not be classified as Abandoned Property.
- (4) In the event Bank does not use a property in majority, the part of property unused for Bank's business activities shall proportionally be classified as Abandoned Property.

3. Between Article 47 and Article 48, 1 (one) Article is inserted as Article 47A as follows:

Article 47A

- (1) In the event the collateral is used for deduction from provision for asset losses, the appraisal of collateral shall be carried out by at least:
 - a. independent appraiser as referred to in Article 38 paragraph (7) for Earning Asset for debtor or Group of Debtors with any amount of more than Rp 5,000,000,000.00 (five billion rupiah);
 - b. Bank's internal appraiser for Earning Assets to debtor or Group of Debtors with any amount up to Rp 5,000,000,000.00 (five billion rupiah).
- (2) The appraisal of the collateral as referred to in paragraph (1) must be carried out at the beginning of the extension on earning assets.

4. Provision...

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4. Provision for Article 48 is amended to read as follows:

Article 48

(1) The value of collateral eligible for deduction from provision for asset losses shall be determined as follows:

- a. securities or stocks actively traded in the Indonesian stock market or rated investment grade, no higher than 50% (fifty percent) from the value recorded in the stock market at end of month;
- b. Land and/or building used as residential, no higher than:
 - 1) 70% (seventy percent) of the appraisal value in cases of:
 - a. earning asset of more than Rp 5,000,000,000.00 (five billion rupiah) and appraisal by the independent appraiser was carried out during the last 18 (eighteen) month; or
 - b. earning asset equal to or less than Rp 5,000,000,000.00 (five billion rupiah), and appraisal by the internal appraiser was carried out during the last 12 (twelve) months or appraisal by the independent appraiser was carried out during the last 18 (eighteen) months.
 - 2) 50% (fifty percent) of the appraisal value in cases of:
 - a. earning asset of more than Rp 5,000,000,000.00 (five billion rupiah) and appraisal by independent appraiser was carried out more than 18 (eighteen) months ago but no more than the last 24 (twenty four) months; or
 - b. earning asset equals to or less than Rp 5,000,000,000.00 (five billion rupiah) and appraisal by internal appraiser was carried out more than 12 (twelve) months ago but no more than the last 18 (eighteen) months or appraisal by independent appraiser was carried out more than 18 (eighteen) months ago but no more than the last 24 (twenty four) months.
 - 3) 30% (thirty percent) of the appraisal value in cases of:
 - a. earning asset of more than Rp 5,000,000,000.00 (five billion rupiah) and appraisal by independent appraiser was carried out more than 24 (twenty four) months ago but no more than the last 30 (thirty) months; or
 - b. earning asset equals to or less than Rp 5,000,000,000.00 (five billion rupiah), and appraisal by internal appraiser was carried out more than 18 (eighteen) months ago but no more than the last 24 (twenty four) months, or appraisal by independent appraiser was carried out more than 24 (twenty four) months ago but no more than the last 30 (thirty) months.

4) 0% ...

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- 4) 0% (zero percent) of the appraisal value in cases of:
 - a. earning asset of more than Rp 5,000,000,000.00 (five billion rupiah) and appraisal by independent appraiser was carried out more than the last 30 (thirty) months; or
 - b. earning asset equals to or less than Rp 5,000,000,000.00 (five billion rupiah) and appraisal by internal appraiser was carried out more than the last 24 (twenty four) months or appraisal by independent appraiser was carried out more than the last 30 (thirty) months.
 - c. Land and/or building not used for residential purposes, machine regarded as an inseparable part of the land, aircraft, marine vessel, warehouse receipt, and inventory no higher than:
 - 1) 70% (seventy percent) of the appraisal value if the appraisal was carried out during the last 12 (twelve) months;
 - 2) 50% (fifty percent) of the appraisal value if the appraisal was carried out more than 12 (twelve) months ago but no more than the last 18 (eighteen) months;
 - 3) 30% (thirty percent) of the appraisal value if the appraisal was carried out more than 18 (eighteen) months ago but no more than the last 24 (twenty four) months; or
 - 4) 0% (zero percent) of the appraisal value if the appraisal was carried out more than the last 24 (twenty four) months.
- (2) Bank is required to apply the lowest value in the case of several different appraisal values of collateral for the same position whether performed by internal appraiser or independent appraiser.
- (3) Bank Indonesia may designate the value eligible as deduction from provision for asset losses to be lower than the value specified in paragraph (1) hereinabove on the basis of supervisory considerations.

5. Provision for Article 49 is amended to read as follows:

Article 49

- (1) The value of collateral eligible for deduction from provision for asset losses as referred to in Article 48 shall not exceed the contract value of the collateral.
- (2) The value of collateral eligible for deduction from provision for asset losses shall be determined on the basis of the lowest value between the appraisal as referred to in Article 48 paragraph (1) and the contract value of the collateral.

6. Provision...

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6. Provision for Article 73 is amended to read as follows:

Article 73

- (1) Any bank failing to comply with the provisions stipulated in Article 2, Article 4, Article 5, Article 6, Article 7, Article 9, Article 13, Article 17, Article 18, Article 22, Article 33 paragraph (3), Article 34, Article 37, Article 38, Article 40, Article 41, Article 43, Article 44, Article 47, Article 47A, Article 49, Article 50 paragraph (2), Article 51, Article 52, Article 53, Article 54, Article 55, Article 56, Article 57, Article 58, Article 59, Article 60, Article 61, Article 62, Article 63, Article 64 paragraph (2), Article 65, Article 66, Article 69, Article 70, Article 71 and Article 72 shall be liable to administrative sanction, including but not limited to:
- a. written warning;
 - b. freezing of specified business activities;
 - c. inclusion of the management and/or shareholders of the Bank on the list of people prohibited from becoming shareholders and managers in Banks, as specified in Article 52 of Law No. 7 of 1992 on Banking as amended by Law No. 10 of 1998.
- (2) Aside from the sanctions as referred to in paragraph (1), any Bank failing to comply with Article 17 and Article 18 must set aside provision for asset losses amounted to 100% (one hundred percent) to the asset.

Article II

This Bank Indonesia Regulation shall come into force on the date of its enactment.

For the public to be informed, it is ordered that this Bank Indonesia Regulation be promulgated in the Official Gazette of the Republic of Indonesia.

Enacted in Jakarta

Dated 29 January 2009

THE GOVERNOR OF BANK INDONESIA,

BOEDIONO

Promulgated...

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Promulgated in Jakarta

Dated 29 January 2009

MINISTER OF LAW AND HUMAN RIGHTS
OF THE REPUBLIC OF INDONESIA

ANDI MATTALATTA

OFFICIAL GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 28 OF 2009
DPNP

UNOFFICIAL TRANSLATION
ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 11 / 2 / PBI / 2009
CONCERNING
THE THIRD AMENDMENT OF
BANK INDONESIA REGULATION NUMBER 7 / 2 / PBI / 2005
CONCERNING ASSET QUALITY RATING FOR COMMERCIAL BANKS

I. GENERAL REVIEW

As an institution with the main function of mobilizing funds from public and channeling funds to public, the role of banking in supporting the development of the real sector through financing is highly expected, including in dealing with the impact of the global financial crisis.

Whereas in facing the global financial crisis, there are pressures to liquidity and profitability of Banks. In this regard, it is necessary to have efficiency in Banks' operational activities so that Banks can still provide financing optimally using their funds. In providing such financing, Banks need to continue managing the credit risk exposure at the adequate level so as to minimize the potential loss from provisions of fund. In this regard, credit risk management in every phase of provision of fund, including in maintaining adequate asset quality and provision for asset losses, needs to be effectively implemented.

For the purpose of optimizing the role of banking in financing and by looking at development of the current condition, it is deemed necessary to adjust a number of provisions in Banks' asset quality rating. This adjustment is expected to maintain the role of Banks in supporting the financing of the real sector.

II. ARTICLE BY ARTICLE

Article 1

Number 1

Article 35

Paragraph (1)

The limit as specified in this provision shall be calculated to all facilities given (the ceiling) to each debtor or project, whether for

individual...

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individual debtors or Group of Debtors in the case of loan and other provisions of fund are used to finance the same project.

Letter a

By other provisions of fund is meant issuance of guarantee or opening of letter of credit.

Included as loan and other provisions of fund are all types of loan or provisions of funds extended to all category of debtors.

Letter b

The definition of Micro, Small, and Medium Enterprise would refer to the applicable law and regulations, which currently is regulated under Law of The Republic of Indonesia Number 20 of 2008 concerning Micro, Small, and Medium Enterprise.

Number 1)

Letter a)

Adequacy of risk control system includes:

- a. active supervision from Board of Commissioners and Board of Directors of Bank;
- b. adequacy in policy, procedure and designation of limit;
- c. adequacy in identification, measurement, monitoring, controlling and risk management information system; and
- d. comprehensive internal control system.

as specified in the applicable Bank Indonesia provisions concerning the Implementation of Risk Management for Commercial Banks.

In general, risk control system for credit risk rated as strong is reflected in the application of all components of risk control system for all credit risk as stated hereinabove for which are effective for maintaining a sound internal condition of Bank. In case of weakness in the implementation of internal control, such weakness shall not be material to credit risk and corrective measures can be taken immediately so as not to create significant impact to the Bank's condition.

Letter b)....

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Letter b)

Self-explanatory.

Letter c)

Composite rating is the composite rating as specified in the applicable Bank Indonesia provisions concerning Bank Rating System for Commercial Banks.

Number 2)

Letter a)

Adequacy of risk control system includes:

- a. active supervision from Board of Commissioners and Board of Directors of Bank;
- b. adequacy in policy, procedure and designation of limit;
- c. adequacy in identification, measurement, monitoring, controlling and risk management information system; and
- d. comprehensive internal control system.

as specified in the applicable Bank Indonesia provisions concerning the Implementation of Risk Management for Commercial Banks.

In general, risk control system for credit risk rated as acceptable is reflected in the application of all components of risk control system for credit risk as stated hereinabove for which are quite effective for maintaining a sound internal condition of Bank. In case of weakness in the implementation of internal control to credit risk, such weakness shall not be material to credit risk and if corrective measures are not taken immediately, it may create significant impact to the Bank's condition.

Letter b)

Self-explanatory.

Letter c)

Composite rating is the composite rating as specified in the applicable Bank Indonesia provisions concerning Bank Rating System for Commercial Banks.

Letter c...

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Letter c

Loan and other provisions of fund to debtor with businesses located in specified regions are loan or other provisions of fund from Bank for investment and or working capital in specified regions which according to the assessment of Bank Indonesia would require special treatment to promote economic development in the said regions.

By other provisions of fund is meant issuance of guarantee or opening of letter of credit.

The limit of credit facility of loan and other provisions of fund shall be calculated against all facility received by every debtor whether individual debtors or group of debtors as received from one Bank.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Letter a

Self-explanatory.

Letter b

By 50 (fifty) largest debtors is meant 50 (fifty) largest debtors of Bank on individual basis.

Earning asset extended by Bank with any amount of more than Rp 1,000,000,000.00 (one billion rupiah) up to Rp 10,000,000,000.00 (ten billion rupiah) to 1 (one) debtor who falls under the 50 (fifty) largest debtors of Bank shall not be affected by quality of earning asset extended by other Bank to the same debtor or project with any amount equal to or less than Rp 10,000,000,000.00 (ten billion rupiah).

Paragraph (5)

Self-explanatory.

Paragraph (6)

Self-explanatory.

Number 2...

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Number 2

Article 40

Paragraph (1)

Included as Abandoned Property among others are land and/or building not used for Bank's business activities, such as building and/or land on lease.

Paragraph (2)

Self-explanatory.

Paragraph (3) and paragraph (4)

By "used in majority for Bank's business activities" is meant that Bank used the majority portion i.e. more than 50% (fifty percent).

The measuring of the proportion used for Bank's business activities shall be done separately for each property.

For example:

Property A is used for Bank's business activities at 65%.

Property B is used for Bank's business activities at 40%.

Property C is entirely not used for Bank's business activities.

In such cases, the entire property A is not classified as Abandoned Property, property B is classified as Abandoned Property at 60% and property C is entirely classified as Abandoned Property.

Number 3

Article 47A

Paragraph (1)

The limit of Rp 5,000,000,000.00 (five billion rupiah) shall be calculated against all facility extended to debtor or group of debtors.

Letter a

Self-explanatory.

Letter b

The appraisal of collateral by Bank's internal appraiser shall refer to the standards of appraisal used by independent appraiser.

Paragraph (2)

Self-explanatory.

Number 4...

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Number 4

Article 48

Paragraph (1)

Letter a

Investment grade is investment grade as regulated under the applicable Bank Indonesia provisions concerning Rating Agencies and Ratings Acknowledged by Bank Indonesia.

Letter b

By appraisal is meant written statement by independent appraiser or Bank's internal appraiser on estimate and opinion of the economic value of collateral based on the analysis of objective and relevant facts according to the generally accepted methods and principles established by competent association or authority.

Letter c

Included as land and/or building used not for residential purpose among others are shophouses, plantation, and mining ground.

By appraisal is meant written statement by independent appraiser or Bank's internal appraiser on estimate and opinion on the economic value of collateral based on the analysis of objective and relevant facts according to the generally accepted methods and principles established by competent association or authority.

The appraisal of collateral shall refer to the provision under Article 47A.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Some of the things which may be considered among others are the historical data of the collateral's realizable value, which generally is much lower than the value of collateral for deduction of provision for asset losses as referred to in paragraph (1), and/or a big gap between the appraisal value and the calculation of the collateral's present value.

Number 5...

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Number 5

Article 49

Paragraph (1)

The calculation of collateral as deduction from provision for asset losses required for Banks is related with the function of collateral as credit risk mitigant. In this regard, collateral eligible for deduction from provision for asset losses is collateral which can be realized by Bank in event of default under the provision of fund.

Paragraph (2)

For example:

Appraisal of collateral was carried out during the last 12 (twelve) months resulted in valuation of collateral amounted to Rp 100,000,000,000.00 (one hundred billion rupiah). Collateral eligible for deduction from provision for asset losses: 70% (seventy percent) x Rp 100,000,000,000.00 (one hundred billion rupiah) = Rp 70,000,000,000.00 (seventy billion rupiah).

If the contract value of the said collateral is Rp 60,000,000,000.00 (sixty billion rupiah), collateral eligible for deduction from provision for asset losses is Rp 60,000,000,000.00 (sixty billion rupiah).

Number 6

Article 73

Self-explanatory.

Article II

Self-explanatory.